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**IN THE UNITED STATES DISTRICT COURT**  
**U.S. DISTRICT COURT**  
**FOR THE NORTHERN DISTRICT OF ALABAMA** **ALABAMA**

**SOUTHERN DIVISION**

**UNITED STATES OF AMERICA** )  
 )  
**v.** )  
 )  
**JASON BROWN** )

**RULE 11(f) FACTUAL BASIS FOR GUILTY PLEA**

COMES NOW the United States of America through its undersigned counsel, for the purpose of satisfying the requirements of Federal Rule of Criminal Procedure 11(f), submits the following Factual Basis in support of the guilty plea of **JASON BROWN**:

**HealthSouth**

1. HealthSouth Corporation ("HealthSouth") was formed in 1984. HealthSouth is the nation's largest provider of outpatient surgery, diagnostic imaging, and rehabilitative health care services with approximately 1800 locations in all 50 states and abroad. Since approximately 1988 until March 2003, HealthSouth's common stock was listed on the New York Stock Exchange. Many of its executives, including its then Chief Executive Officer ("CEO"), either owned shares in HealthSouth, or owned options to such shares. The CEO, and others, were also compensated in part by bonuses. The bonuses depended on how well HealthSouth performed financially.

2. HealthSouth, like other companies whose shares were publically traded, generated and publicized earnings expectations. Stock market analysts did the same. Whether a company met, exceeded, or failed to meet such expectations, was often a factor that influenced the price of its shares.

3. Since in or about 1986, when it made its Initial Public Offering (IPO), HealthSouth has been an issuer of a class of securities registered under Section 12 of the Securities Exchange Act of 1934 required to file quarterly and annual statements (Forms 10-Q and Forms 10K) under said Act with the Securities Exchange Commission ("SEC"). These statements reported HealthSouth's earnings, as well as the value of its assets and liabilities. These reports were available to the public which used them to determine whether HealthSouth met the aforesaid expectations.

4. Under provisions of the federal securities laws and the regulations promulgated thereunder, HealthSouth was also required to make and keep books, records and accounts that accurately and fairly reflected the transactions and dispositions of the company's assets and to devise and maintain a system of internal accounting controls sufficient to provide – (i) reasonable assurances that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") and other criteria applicable to such statements and to maintain the accountability of assets; and (ii) reasonable assurances that the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences.

### The Conspiracy.

5. Beginning at least in 1996, the CEO, other Senior Officers and members of HealthSouth's accounting staff including, from time to time, Michael Martin, William Owens, Aaron Beam, Malcolm McVay, Weston Smith, Emery Harris, Ken Livesay, Cathy Edwards, Virginia Valentine, Kay Morgan, Angela Ayres and others, engaged in a conspiracy and scheme and artifice to, among other objectives, defraud investors by artificially inflating HealthSouth's earnings and earnings per share; make false entries in HealthSouth's books and records, file false statements with the SEC and commit mail and wire fraud.

6. HealthSouth's CEO and other Senior Officers reviewed monthly and quarterly preliminary reports showing HealthSouth's true and actual financial results, which usually showed that HealthSouth had not met earnings per share expectations. These Senior Officers would then direct HealthSouth's accounting staff to manipulate HealthSouth's books, accounts and records to ensure that HealthSouth's earnings per share number met or exceeded those expectations.

7. Methods to increase earnings included making entries to reduce offsets against revenues or to reduce expenses. Corresponding fraudulent entries were made to increase assets and decrease liabilities on HealthSouth's Balance Sheet. Such entries were made in, among other accounts, HealthSouth's (1) Property, Plant and Equipment ("PP&E") accounts; (2) cash accounts; (3) inventory accounts; (4) intangible asset (goodwill) accounts; and (5) investment portfolio.

8. These entries caused the quarterly and annual financial statements filed with the SEC for the years from before 1994 through 2002, that is, Forms 10-Q and Forms 10K, to be

materially false. The cumulative overstatement of assets summed more than a billion dollars. Some of these financial statements were transmitted electronically from Birmingham, Alabama to Washington, D.C., to be filed with the SEC.

9. The CEO and other conspirators benefitted from the conspiracy by receiving salaries, bonuses, and an increased value in their stock and stock options. The investing public suffered to the extent they paid for shares whose value was inflated by the aforesaid conspiracy.

#### **The Defendant**

10. Defendant **JASON BROWN** was employed at HealthSouth Corporation ("HealthSouth") since 1994. Defendant **BROWN** worked in the accounting division from the beginning of his employment until mid-1996. From mid-1996 until the end of 1997, **BROWN** worked in the Corporate Development Department. He then moved to the Treasury Department. In May of 2000, defendant **BROWN** was promoted to the position of Vice President -- Finance.

11. In the course of his employment at HealthSouth, defendant **BROWN** would and did become aware of the HealthSouth's earnings shortfalls and the potential adverse effect on HealthSouth's stock price if these shortfalls were disclosed to the public.

#### **Bogus Stock Sale Documents**

12. In or about the summer of 2002, defendant **BROWN** learned of, and knowingly and voluntarily joined in, the above-described conspiracy and scheme and artifice. Defendant **BROWN** was instructed by other Senior Officers of HealthSouth to create a bogus document showing the sale of stock of another publicly traded company owned by HealthSouth in 2002, when, as the conspirators well knew, the stock had been sold for more than \$27 million in 2001.

13. In the meetings with other Senior Officers defendant **BROWN** discussed steps that would have to be taken to make the bogus stock sale document appear legitimate. Defendant **BROWN** was instructed to have the phony document show that the stock was sold in small blocks over a period of several weeks. This would be done to ensure that the number of shares shown on the bogus document as sold on a particular day in 2002, did not exceed the actual volume of stock in the company that traded on that day. Further, in creating the bogus stock sale document, defendant **BROWN** would confirm the stock's actual trading price on the dates in 2002 when the bogus sales would purportedly take place. Finally, defendant **BROWN** and others would cause actual wire transfers from HealthSouth's investment account in amounts that were consistent with the purported proceeds of the bogus stock sales. Employing all of the above-listed devices, defendant **BROWN** created the bogus document which the conspirators would provide to HealthSouth's auditors to give the appearance that the stock sale occurred in 2002.

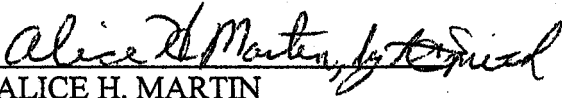
14. Defendant **BROWN** provided the false and fraudulent stock sale document to others in HealthSouth's Treasury Department and accounting staff who provided the bogus document to HealthSouth's auditors.


#### **False Same-Store Volume Information**

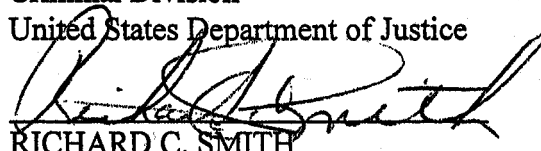
15. Same-store volume figures compared operating results from a defined set of facilities for the current quarter with the operating results for the same set of facilities for the same period during the prior year. Same-store volume is one of the statistics that is relied upon by Wall Street analysts in evaluating for their clients and the public the financial condition and operating results of HealthSouth.


16. In a meeting which took place near the end of 2002, defendant **BROWN** met with other Senior Officers of HealthSouth and discussed the fact that HealthSouth's outpatient "same-store volume" had declined significantly in the third quarter of 2002 compared to the same quarter for 2001. At the direction of the other Senior Officers, defendant **BROWN** altered the actual same-store volume numbers in HealthSouth's books and records, making it appear that same-store volume for the third quarter of 2002 had not declined as much as the actual operating results showed. Defendant **BROWN** and others then caused the falsified outpatient same-store volume numbers to be included in a press release which was sent via interstate wire to HealthSouth's analysts and to the public.


17. Defendant **BROWN** and others also maintained in the files, books and records of HealthSouth the above-described documents and records which they knew to contain false information.

  
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